REPORT OF THE AUDIT OF THE BOURBON COUNTY SHERIFF

For The Year Ended
December 31, 2007

CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov

105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE (502) 573-0050
FACSIMILE (502) 573-0067

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE
BOURBON COUNTY SHERIFF

For The Year Ended
December 31, 2007

The Auditor of Public Accounts has completed the Bourbon County Sheriff's audit for the year ended December 31, 2007. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees increased by $398,723 from the prior year, resulting in excess fees of $424,277 as of December 31, 2007. Revenues decreased by $91,689 from the prior year and expenditures decreased by $490,412. This large change was due to the Bourbon County Sheriff's office converting to a fee pooling office in March 2007.

Report Comment:

- The Sheriff Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

Deposits:

The Sheriff's deposits as of December 4, 2007 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured $108,835

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Donnie Foley, Bourbon County Judge/Executive
The Honorable Mark Matthews, Bourbon County Sheriff
Members of the Bourbon County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the Sheriff of Bourbon County, Kentucky, for the year ended December 31, 2007. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2007, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated May 27, 2008 on our consideration of the Bourbon County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE 502.573.0050
FACSIMILE 502.573.0067
WWW.AUDITOR.KY.GOV

The Honorable Donnie Foley, Bourbon County Judge/Executive
The Honorable Mark Matthews, Bourbon County Sheriff
Members of the Bourbon County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Bourbon County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

Crit Luallen
Auditor of Public Accounts

May 27, 2008

BOURBON COUNTY
MARK MATTHEWS, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2007

Revenues		
State - Kentucky Law Enforcement Foundation Program Fund		$ 13,123
State Fees For Services:		
Finance and Administration Cabinet		57,602
Circuit Court Clerk:		
Sheriff Security Service	$ 22,589	
Fines and Fees Collected	7,448	
Court Ordered Payments	1,310	31,347
Fiscal Court		106,273
County Clerk - Delinquent Taxes		750
Commission On Taxes Collected		237,475
Other Fees On Tax Collections:		
Sheriff's Penalty On Taxes	24,529	
Advertising Fees	2,675	27,204
Fees Collected For Services:		
Auto Inspections	5,790	
Accident and Police Reports	239	
Serving Papers	55,850	
Carrying Concealed Deadly Weapon Permits	2,090	
Miscellaneous	971	64,940
Interest Earned		8,730
Borrowed Money:		
State Advancement		30,250
Total Revenues		577,694

The accompanying notes are an integral part of this financial statement.

BOURBON COUNTY
MARK MATTHEWS, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2007
(Continued)

Expenditures		
Operating Expenditures:		
Personnel Services-		
Deputies' Salaries	$ 16,012	
Part-Time Salaries	2,250	
Other Salaries	7,875	
Bailiff's Salaries	10,541	
KLEFPF	1,431	$ 38,109
Employee Benefits-		
Employer's Share Social Security	3,555	
Employer's Share Hazardous Duty Retirement	4,398	7,953
Contracted Services-		
Vehicle Maintenance and Repairs	923	
Payroll Processing	417	1,340
Materials and Supplies-		
Office Materials and Supplies	169	
Uniforms	293	462
Auto Expense-		
Gasoline		2,197
Other Charges-		
Computer Expense	232	
Transporting Prisoners	64	
Telephone	791	
Courtroom Security	54	1,141
Debt Service:		
State Advancement		30,250
Total Expenditures		81,452
Net Revenues		496,242
Less: Statutory Maximum		71,118
Excess Fees		425,124
Less: Training Incentive Benefit		847
Excess Fees Due County for 2007		424,277
Payments to Fiscal Court - Monthly		424,277
Balance Due Fiscal Court at Completion of Audit		$ 0

The accompanying notes are an integral part of this financial statement.

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2007

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2007 services
- Reimbursements for 2007 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2007

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 1. Summary of Significant Accounting Policies (Continued)

D. Fee Pooling

The Bourbon County Fiscal Court approved a fee pooling system for the Bourbon County Sheriff in March 2007. Under the fee pooling system, net income and net fees from the office of the Sheriff are paid over to the County Treasurer in the subsequent month. Therefore, the County pays almost all of the expenses of the Bourbon County Sheriff's office.

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.19 percent for the first six months and 16.17 percent for the last six months of the year. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 28.21 percent for the first six months and 33.87 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Bourbon County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were not met, as the Sheriff did not have a written agreement with the bank.

Note 3. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Bourbon County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). On December 4, 2007, the Sheriff's bank balance was exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured $108,835

Note 4. Drug Forfeiture Account

The Bourbon County Sheriff's office maintains a drug forfeiture account. This account is funded by proceeds from the confiscation, surrender, or sale of real and personal property involved in a drug related conviction. This account had a beginning balance of $1,922. Receipts during the year were $285 including $85 in interest income. Disbursements during the year totaled $200 and were used to purchase law enforcement equipment for the Sheriff's office. As of December 31, 2007, the ending balance was $2,007.

Note 5. DARE Account

The Bourbon County Sheriff maintains an account for Drug Abuse Resistance Education (DARE) money. This money is to be used for drug education. There were receipts of $404 including $400 in private donations and $4 in interest income. Disbursements during the year totaled $40. As of December 31, 2007, the ending balance was $364.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Donnie Foley, Bourbon County Judge/Executive
The Honorable Mark Matthews, Bourbon County Sheriff
Members of the Bourbon County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Bourbon County Sheriff for the year ended December 31, 2007, and have issued our report thereon dated May 27, 2008. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Bourbon County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting which is a basis of accounting other than generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE 502.573.0050
FACSIMILE 502.573.0067
WWW.AUDITOR.KY.GOV

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Bourbon County Sheriff's financial statement for the year ended December 31, 2007, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comment and recommendation.

- The Sheriff Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

The Bourbon County Sheriff's response to the finding identified in our audit is included in the accompanying comment and recommendation. We did not audit the Sheriff's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Bourbon County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Crit Luallen
Auditor of Public Accounts

May 27, 2008

COMMENT AND RECOMMENDATION

BOURBON COUNTY
MARK MATTHEWS, SHERIFF
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2007

STATE LAWS AND REGULATIONS:

The Sheriff Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

On December 4, 2007, $108,835 of the Sheriff's deposits of public funds were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if the amounts on deposit exceed the $100,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). The Sheriff should require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times. We also recommend the Sheriff enter into a written agreement with the depository institution to secure the Sheriff's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Sheriff's Response:

Did not know agreement was not done by new financial institution. In past, agreement was automatically prepared and filed.